

THE OFFICE OF REGULATORY STAFF

REPLY TESTIMONY

OF

DAWN M. HIPPIE

November 2, 2009



DOCKET NO. 2009-326-C

**State Universal Service Support of Basic
Local Service Included in a Bundled Service
Offering or Contract Offering**

1 **IT IS INCLUDED IN A BUNDLED OR CONTRACT SERVICE**
2 **OFFERING?**

3 A. No. However, as the State USF Fund Administrator, it is important that
4 ORS clarify how COLR high cost State USF support is calculated.

5 **Q. DOES THE ORS USE THE SAME METHODOLOGY TO CALCULATE**
6 **COLR HIGH COST SUPPORT AS THE COMMISSION USED PRIOR TO**
7 **2005?**

8 A. Yes. The methodology ORS currently uses to calculate high cost State
9 USF support is identical to how Commission staff calculated the high cost State
10 USF support.

11 **Q. HOW IS THE FUNDING FOR THE STATE UNIVERSAL SERVICE**
12 **FUND CALCULATED?**

13 A. In its Guidelines and Administrative Procedures, the Commission defined
14 the size of the fund as:

15 The maximum size of the state USF (which includes provision for
16 high cost and low income support) shall be the sum of the
17 differences, for each ILEC carrier of last resort, for each of its
18 designated state USF support service areas, between the cost of
19 providing basic local exchange telecommunications services less
20 the maximum amount (as approved by the Commission) it may
21 charge for basic local exchange telecommunications service within
22 each area and less any federal universal service support received
23 for serving the same area ("high cost support component"), plus
24 the cost of any state mandated support programs for low-income
25 consumers such as Lifeline, as well as any appropriate
26 administrative expenses.
27

28 This Commission, in Order No. 2001-996, implemented a "phased in"
29 approach to funding the state USF.

1 **Q. PLEASE EXPLAIN THE PHASED IN APPROACH TO THE HIGH COST**
2 **SUPPORT CALCULATION.**

3 A. According to the PSC Guidelines and Administrative Procedures,
4 the high cost support component was to be implemented in three phases:

5 *(1) Initial Phase*

6 The high cost support component is equal to the revenue
7 reductions made by the COLRs as a result of reduced tariffed rates
8 approved by the PSC. The Initial Phase is limited to no more than
9 one-third of the total fund approved by the Commission. The
10 COLRs file cost study data to demonstrate that implicit support
11 exists in the tariff rates proposed to be reduced. According to
12 Footnote #2, p.5 of the PSC Guidelines and Administrative
13 Procedures, “the High Cost Support shall be equal to the revenue
14 reductions as the result of reduced tariffed rates approved by the
15 Commission.”

16 *(2) Second Phase*

17 The Second Phase is limited to no more than two thirds of the total
18 state USF. The high cost support component for the COLR is
19 based on reduced tariffed rates and updated cost data which
20 demonstrates implicit support exists in the tariffed rates proposed
21 to be reduced.

22 *(3) Subsequent Phases*

Any Subsequent Phase allows the COLR to transition to full high cost support funding. The high cost support component for the COLR is based on reduced tariffed rates and updated cost data which demonstrates implicit support exists in the tariffed rates proposed to be reduced.

Q. HAS ANY SC CARRIER OF LAST RESORT REQUESTED FUNDING BEYOND THE INITIAL PHASE?

A. Yes. Several COLRs have requested additional funding beyond the Initial Phase.

Q. IS THE HIGH COST SUPPORT TO COLRS REVENUE NEUTRAL?

A. Yes. The PSC Guidelines and Administrative Procedures specifically address revenue neutrality. In basic terms, the size of the State USF High Cost support is equal to the revenue reductions the COLR made as a result of reducing tariff charges which were approved by the Commission and reflected in tariff filings. In fact the Legislative Audit Council, in its February 2005 report to the General Assembly, addressed this issue and clearly stated "The fund would be implemented in a revenue neutral manner – incumbent LECs should reduce rates that were priced above cost to offset the amount received from the fund." ¹

Q. IS THE STATE UNIVERSAL SERVICE FUND HIGH COST SUPPORT ALSO REPORTED ON A PER LINE BASIS?

A. Yes. The Commission requires COLRs to submit specific data for each designated service area which allows ORS to calculate the per line high cost

¹ *A Review of the South Carolina Universal Service Fund*, Report to the General Assembly, at page 9 Chart 1.4 (February 2005).

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-326-C

IN RE:)	
State Universal Service Support of Basic Local)	CERTIFICATE OF
Service Included in a Bundled Service Offering)	SERVICE
or Contract Offering)	

This is to certify that I, Chrystal L. Morgan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **REPLY TESTIMONY OF DAWN M. HIPP** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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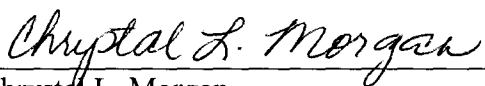
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November 2, 2009
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